MANAGEMENT DISCUSSION AND ANALYSIS

PNB Housing Finance, as a responsible and trusted financing partner, continues to fulfil the dreams of millions of Indians of owning a house by offering them a wide range of financial products and solutions.

The past few years have been challenging for us owing to various external issues, followed by the disruption caused by once-in-a-century event of a pandemic. We realigned our strategy as per the need of the hour and created a robust foundation for future growth.

We divided the strategic roadmap into three phases, over the short, medium and long term. It includes strengthening the core, driving efficiency and accelerating growth across focused business segments. We are focusing on the retail segment, including dedicated efforts towards the Unnati segment targeted at the prime affordable segment. We are increasing our digital footprint across functions to bring in higher efficiency levels. We have also embarked upon a transformation journey called 'Project IGNITE' with focus on repositioning our business, strengthening underwriting, collections and cost optimisation.

We are on a journey called PROGRESS.

MACROECONOMIC REVIEW: A VACCINE-POWERED RECOVERY UNDERWAY

The Indian economy entered FY 2020-21 on a sombre note, with stringent nation-wide restrictions on activity and mobility to contain the COVID-19 outbreak. The economic output contracted by 24.4% in the first quarter, while recouping some losses with the gradual easing of the lockdown in the second quarter. However, the Indian economy entered into a technical recession with two successive quarters of de-growth — the fourth since independence and the first since the economic liberalisation in 1991. The Central Government responded quickly — first by providing relief to the economically vulnerable sections and then by stabilising the economy. The Reserve Bank of India (RBI) pulled all stops at its disposal to inject liquidity in the system and spur revival. The cumulative stimulus amounted to ₹29.87 lakh crores or about 15% of India's GDP.

The economy returned to a positive growth path in Q3, registering a 0.4% expansion. The sharper-than-expected recovery was driven by a resilient rural economy, robust pent-up demand, and

festive spending. The discovery of vaccines and tapered new infection graph bolstered sentiments. High frequency indicators, such as GST collections, Index of Industrial Production (IIP), Purchasing Manager's Index (PMI), automotive sales, steel production, and power demand, among others witnessed an upward trend.

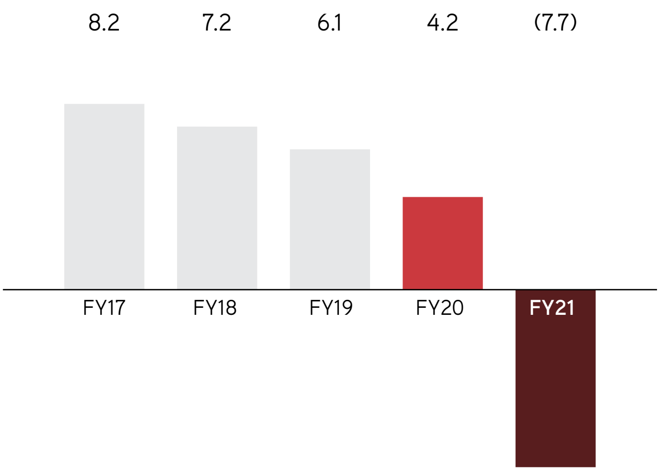
However, towards the close of the FY 2020-21, the recovery got somewhat impacted again by the second wave of the pandemic with new localised restrictions affecting socio-economic activities.

A CALL TO MAKE INDIA SELF-RELIANT

To counter the adverse impact of the lockdown on the economy, the Government of India announced a relief package in a bid to make the country self-reliant. The package consisted of direct cash transfers and free food grains for the poor, support packages for small businesses and a host of sectors, easy loans for struggling businesses, besides a slew of reforms aimed at creating an 'Aatmanirbhar Bharat'.

India's GDP growth over the past five years

(%)



[Source: Central Statistics Office (CSO)]

LIQUIDITY EASE BY THE RESERVE BANK OF INDIA

To cushion the financial sector from the sudden shock of the pandemic, the monetary policy was significantly eased March 2020 onwards. The repo rate has been cut by 115 basis points since March 2020, with 75 basis points cut in first Monetary Policy Committee (MPC) meeting in March 2020 and 40 basis points cut in second meeting in May 2020. The policy rates were kept unchanged in further meetings, but the liquidity support was significantly enhanced. The RBI undertook various conventional and unconventional measures like open market long-term repo operations, among others to manage liquidity.

The RBI injected more than ₹2.7 lakh crores through Open Market Operation (OMO) purchases between February 06 and December 04, 2020.

Targeted long-term repo operations (TLTROs) of up to three years' tenure of a total amount of ₹1.13 lakh crores for investment in corporate bonds, commercial papers (CP), and non-convertible debentures (NCDs), in addition to injection of ₹1.25 lakh crores through Long-Term Repo Operations (LTROs) were conducted between February and March 2020. The deadline for on-tap TLTRO scheme was extended by a period of 6 months till September 30, 2021, ensuring availability of funds to the designated sectors, including the 26 that are stressed and NBFCs.

Timely Measures by the Government of India

The Government of India undertook several schemes to provide relief to various sectors in the economy.

Extension of Partial Credit Guarantee Scheme (PCGS)

The Government announced PCGS 1.0 during the Union Budget FY 2019-20 to extend relief to NBFCs during the ongoing liquidity crisis. Additionally, as a part of special economic package amid the COVID-19 crisis, Finance Minister Smt Nirmala Sitharaman announced the PCGS 2.0 worth ₹45,000 crores for non-banking financial companies (NBFCs) and micro finance institutions (MFIs). Under the modified PCGS, sovereign guarantee of up to 20% of first loss will be provided to state-owned banks for purchase of bonds or CPs of NBFCs, MFIs and housing finance companies (HFCs) having a credit rating of AA or below, including unrated paper with original maturity of up to one year.

Collateral Free Automatic Loans Facility for Business including MSMEs

To provide relief to millions of small businesses reeling under the impact of the COVID-19 lockdown, the government extended collateral-free, automatic loan worth ₹3 lakh crores. Borrowers with up to ₹25 crores outstanding and ₹100 crores turnover are eligible.

Emergency Credit Line Guarantee Scheme (ECLGS)

The government extended the Emergency Credit Line Guarantee Scheme (ECLGS) till March 2021 as ECLGS 2.0 and widened its scope to issue additional funding of up to 40% of outstanding loans as on February 29, 2020 as against 20% earlier. The tenor of loans granted under ECLGS 3.0 will be 6 years, including a moratorium period of 2 years.

Moratorium on Equated Monthly Instalments

The lockdown created economic uncertainties, which resulted in liquidity crisis that impacted the borrowers adversely. In order to offer some relief to borrowers amid the unprecedented situation, the RBI declared a moratorium on equated monthly instalments (EMIs) from March to May 2020 and further extended it till August 2020. The Hon'ble Supreme Court, in a judgement, announced the waiver of the compound interest during the moratorium period and lifted the embargo on asset classification.

One-Time Restructuring of Loans

The RBI during the first wave of COVID-19 conceptualised a one-time restructuring framework to enable the financial sector to continue to lend and also provide customers adequate time to recover from the pandemic and honour their obligations. With the second wave hitting the economy, the RBI has again come out with a Resolution Framework 2.0 on May 05, 2021 to extend support to MSME borrowers.

INDUSTRY INSIGHT

Post-Pandemic Gradual Recovery in Disbursements

The HFCs were already seeing a muted demand environment in FY 2019-20. The COVID-19 pandemic further aggravated the situation. This resulted in a slowdown in disbursements in FY 2020-21, and the cumulative growth in on-book portfolio of HFCs for 9M FY 2020-21 (December 2020 vs. March 2020) stood at 2%. However, the second half of the year witnessed recovery in demand, leading to a gradual increase in disbursements, nearing pre-COVID levels. As per ICRA, total housing credit increased from ₹21.1 lakh crores as on March 31, 2020 to ₹22.1 lakh crores as on December 31, 2020. The affordable housing segment remains one of the key demand drivers and the Government of India extending the credit-linked subsidy scheme (CLSS) to March 2021 provided fillip to the sector. In the Budget 2021, the government has further extended the CLSS scheme till March 2022, driving demand in the affordable housing sector.

Additionally, the government announced a ₹18,000 crores additonal outlay for the urban housing scheme to help complete real estate projects that would create jobs and boost the economy. It would help in starting work on 12 lakhs houses as well as complete 18 lakhs houses. This would create 78 lakhs new jobs as well as demand for steel and cement. Performance security on contracts will be reduced to 3% instead of 5-10%. Earnest money deposit (EMD) will not be required for tenders and will be replaced by bid security declaration. These relaxations will be extended till December 31, 2021.

HFC Disbursements Strengthening Gradually

Given the COVID-19 induced disruptions, the industry saw moderation in the growth rate and the overall on-book housing portfolio reported nil growth (Q-o-Q) in Q1 FY 2021. The disbursements started picking up from Q2 FY 2021 onwards and the overall on-book housing loan portfolio of NBFCs/HFCs and banks is estimated to have reached ₹22.1 trillions as on December 31, 2020. Supported by portfolio buyout, banks continued to outpace the disbursement growth. The overall HFC credit in India is estimated at ₹11.3 lakh crores as on December 31, 2020, with exposures across home loans (HL), loan against property (LAP), construction finance (CF), and lease rental discounting (LRD).

Driven by robust demand and liquidity support from the National Housing Bank, the portfolio growth in the affordable segment remained higher at 8% in 9M FY 2021, following the growth of 18% in FY 2019-20. With unwavering demand, the segment is expected to continue growing at a faster pace than the overall industry.

Asset Quality Remains a Worry

The overall gross non-performing assets (NPA) (stage 3 assets as per revised Ind-AS June 2018 onwards) increased to 2.4% as on March 31, 2020 (1.6% as on March 31, 2019) due to a deterioration across HFCs in the construction finance and LAP segments. The asset quality witnessed further deterioration, although the same is not reflected in the reported numbers as on December 31, 2020. This was largely owing to the asset classification dispensation as per the order by the Hon'ble Supreme Court for not classifying accounts as NPAs till a further order is announced. However, this was settled in March 2021 as the apex court passed an order to lift blanket ban on classification of non-performing assets (NPAs).

Nevertheless, as witnessed in the delinquencies/stage-3 assets reported by entities, the asset quality has witnessed deterioration in Q3 FY 2021 and a further impact is expected in Q4 FY 2021. The proforma NPAs (those considering no asset classification dispensation) increased to around 2.7% (around 60 basis points higher than reported numbers as on December 31, 2020). Some entities have resorted to the restructuring option available under the regulatory relief measures announced by the RBI.

Skewed Borrowing Profile

Owing to the challenges in the last two years, the HFCs have reduced funding from CPs and its share has declined to around 2% as on December 31, 2020, from 4% as on March 31, 2020 (7% as on March 31, 2019). The proportion of fixed deposits increased considerably to 21% as on December 31, 2020, from 16% as on March 31, 2020.

21%

Share of fixed deposit in HFC funding as on March 31, 2020

The borrowing profile of HFCs remains skewed towards the NCDs, comprising around 38% of the total debt (including off-book). The HFCs witnessed a 9% y-o-y increase in bond issuances in 9M FY 2021 compared to an 18% y-o-y decline in FY 2019-20. Though the funding requirement has been relatively low, given the slowdown in disbursements, the entities are expected to have refinanced a part of their existing high-cost debt as the fresh issuances took place at lower yields. Moreover, the issuances continued to be dominated by the top few issuer, with the top five issuers among HFCs accounting for more than 80% of the bond issuances in 9M FY 2021.

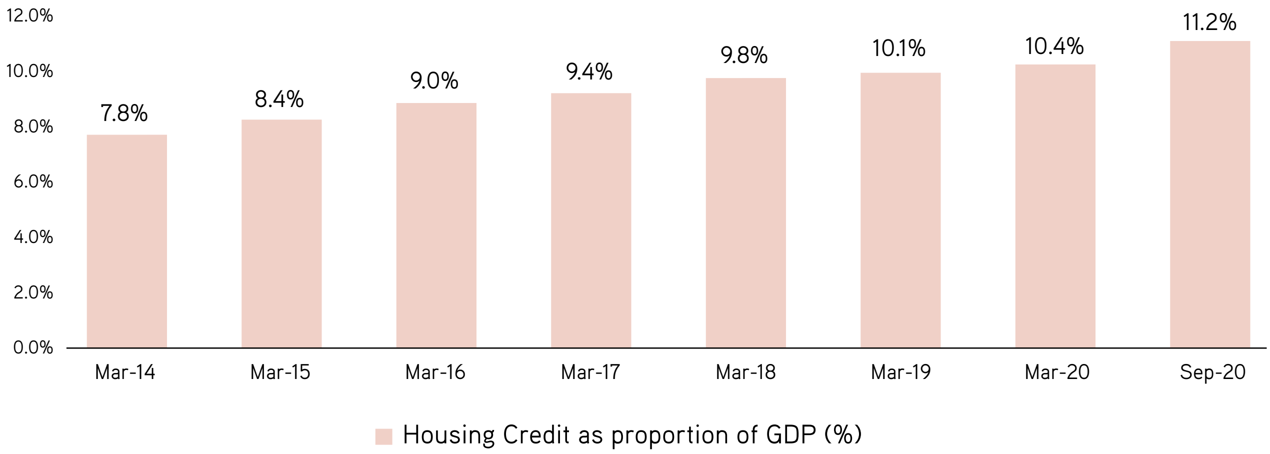
Adequate Capitalisation but High Provisioning

The aggregate on-balance sheet gearing of HFCs stood at 4.8x as on December 31, 2020 as against 5.4x as on March 31, 2020. Despite the high leverage of many HFCs, the reported capital adequacy remained good with a median CRAR of 18.3% as on December 31, 2020, supported by the relatively lower risk weights for home loans and Corporate loans for residential projects.

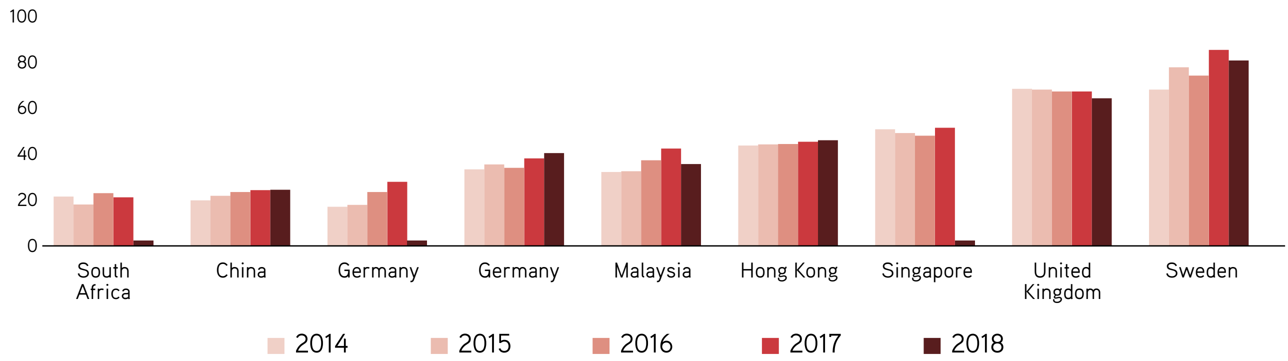
Robust Outlook for the Sector

The housing finance sector is positioned attractively in the coming years driven by strong demand, especially in the affordable housing sector. This is further reinforced by the fact that a number of A-rated builders in the country are moving towards affordable housing segment driven by the Tax SOPs offered by the government. On the other hand, the extension of the CLSS scheme by the Government of India for the affordable housing segment is expected to drive growth within the sector. Additionally, following the pandemic, there has been an increasing trend of owning homes, which is also aiding in driving the housing finance sector in the country. Mortgage penetration in India continues to be lowest when compared with the developed countries, which indicates strong growth opportunity for the sector in the coming years.

Mortgage Penetration Has Been Growing Steadily



...However, Remains Significantly Lower Than Developed Countries



RBI's Master Circular for HFCs

RBI vide its circular dated October 22, 2020 defined the principal business criteria for HFCs. As per the criteria, 50% of the total assets (netted off by intangible assets) should be towards individual housing loans and 60% of the total assets (netted off by intangible assets) should be towards housing loans.

It further states that those HFCs which does not fulfill the defined criteria as on October 22, 2020 has an option to submit a board approved plan including a roadmap to fulfill the defined criteria and timeline for transition to RBI with in three months from the date of circular. Both the conditions are to be met in a graded manner starting from 40% by March 2022 and reaching 50% by March 2024 for individual housing loans and starting from 50% by March 2022 and reaching 60% by March 2024 for housing loans.

In compliance with the above circular, the Company has submitted board approved plan along with roadmap to fulfill the defined criteria and timeline for transition to RBI.

Impact

- Fresh registration for HFCs would be shifted under RBI.
- Specific norms for LCR have been issued for HFCs with asset size greater than ₹5,000 crores that will be applicable in a graded manner from December 2021. The large HFCs are improving their liquidity positions, and those HFCs, which are currently non-compliant would ensure accordance with the guidelines following the transitional path mentioned in the directions.

PNB Housing Finance Review: Setting the Foundation for Next Phase of Growth

The year under review was a challenging one for the Indian economy and it had a domino effect on the housing finance sector, and inevitably, on us as well. During the year, we embarked on a journey of strategic priorities that we set for ourselves in order to create value for all the stakeholders. The three major areas viz Strengthening the Core, Drive Efficiency and Accelerate Growth are the fulcrum of the new agenda that we had set for ourselves during the year. The triumvirate consists of seven focus areas that will help grow business, strengthen risk management, increase profits, and create value for the stakeholders.

NEW AGENDA SET BY THE COMPANY

Strengthening the Core

Management

- Strengthen leadership team with internal promotions and external hires
  - On boarded senior talent in Collections, Information Security, Affordable Housing and Internal Audit
- Augment risk and data analytics team
- Introduced incentive plan to retain talent
- Focus on upgrading skill sets

Capital Position

- Improve capital and gearing
- Build significant provision
- Option to raise capital across different modes

Risk Management

- Leverage advance analytics and new age technologies
- Automate credit appraisal journey with human touch
- Strengthen EWS to improve collection efficiencies
- Remedial Management Group to focus on resolution of corporate book

Drive Efficiency

Cost Management

- Rationalise operating model with focus on profitability
- Optimise cost and productivity
- Improve accountability across organisation
- Product and segment level monitoring

Digital Drive

- Accelerate digital transformation across the value chain
- Increase use of AI, ML, RPAs to augment business, underwriting and accelerate efficiencies
- Advanced analytics for portfolio management, risk, collection
- Building Super App to strengthen digital platform

Accelerate Growth

Retail Focused Lending

- Leverage expertise in mass housing and merchant category
- Increase fee income through cross sell, upsell and co-lending
- Retail to be the engine of growth

Grow Affordable Housing 'Unnati'

- Building higher yielding Unnati portfolio
- Focus on average ticket size of ~₹15 lakh
- Strengthen distribution network with increased presence in Tier 2 and 3 cities

We also laid out the monitorables, under each focus areas, to measure the progress. These are important vectors that will help the Company to shift and achieve its overall strategic objective of a profitable and growing housing finance company.

STRENGTHENING THE CORE – KEY MONITORABLES

Pillars to Agenda	Monitorables	FY 2019-20	FY 2020-21	Remarks
Management	Key roles hired at senior level		5 hires and 2 promotion	Further strengthen management team
Management	Introduced incentive plan to retain talent		RSU allotment done	Introduced RSU for critical positions
Capital Position	Reduce leverage*	8.53x	6.42x	With reduced share of Corporate Book
Capital Position	Improve CRAR*	17.98%**	18.73%	Adjusted for deposit made with companies in same group, CRAR is 20.61%
Capital Position	Maintain adequate Total Provision to Total Asset*	2.61%	4.9%	Net worth to NNPA is 5.9x
Capital Position	Tier 1 capital		In process	Capital raise process ongoing
Risk Management	% of loans sanctioned within stipulated TAT	85%	84%	Leveraging digital interventions to enhance efficiencies
Risk Management	Improve collection efficiencies	98.5%	96.8%	Strengthened bucket-wise resolutions

* As on last day of the period

**As per IGAAP

DRIVE EFFICIENCY – KEY MONITORABLES

Pillars to Agenda	Monitorables	FY 2019-20	FY 2020-21	Remarks
	Maintain cost to income ratio	16.9%	15.1%	Cost rationalisation measures undertaken
	Reduce incremental cost of borrowing	8.47%	6.8%	Incremental COB for Q4FY21 has dropped to 6.26%
	Implement transformation journey		Project 'IGNITE' initiated	Focus on business repositioning, strengthen underwriting, and collections, digital and cost efficiencies
	Increase in digital sourcing	9%	19%	Increased focus on digital sourcing
	Automate underwriting for straight through processing		Vendors identified	Expected to go live by September 2021
	Analytics across the organisation through integration and data warehousing		Advance stages of vendor identification	Implementation from September 2021

ACCELERATE GROWTH – KEY MONITORABLES

Pillars to Agenda	Monitorables	FY 20	FY 21	Remarks
	Grow Retail Book (YoY)	-6%	-5%	Disbursements higher by 50%, reduced lending rates
	Focus on building granular book (disbursement)	87.2%	92.3%	Focus on lower ticket asset sourcing
	Reduction in Corporate Book*	₹14,614 crores 18% of AUM	₹11,786 crores 16% of AUM	Sell down/accelerated payment of ₹1,880 in FY 2020-21
	Create separate vertical and open lean branch infrastructure	Existing branches	Separate vertical created	Locations identified for opening new branches
	Grow Unnati book*	₹ 2,607 crores	₹ 2,985 crores	Focus on building Unnati book

* As on last day of the period

During the year, we focused on strengthening our balance sheet and placed greater emphasis on diversification into areas where we want to build a stronghold. We undertook several steps to increase our presence in the retail segment. We also focused on deleveraging and reducing the load of asset on its capital, which in turn, would reduce the gearing. We were able to achieve this by placing greater focus on building granular book, strategic shift towards a retail-focused segment and reduction in the corporate book share via sell down/accelerated pre-payments.

All these measures resulted in improvement of our capital adequacy ratio from 14% as on March 31, 2019 to 18.7% as on March 31, 2021.

We undertook several initiatives by creating cross functional teams to monitor, analyse and take proactive steps in case of an unforeseen circumstance arising out of the critical situation at hand. Collective efforts were made to support teams across all locations to contain early delinquencies, resolving NPAs and reducing assets held for sale.

With an eye on the economic situation across the country, we adopted a balanced approach towards business and development, on the pillars of asset quality and profitability. Our human capital is our most prized asset and with their dedication and support, we are confident of emerging a much stronger organisation.

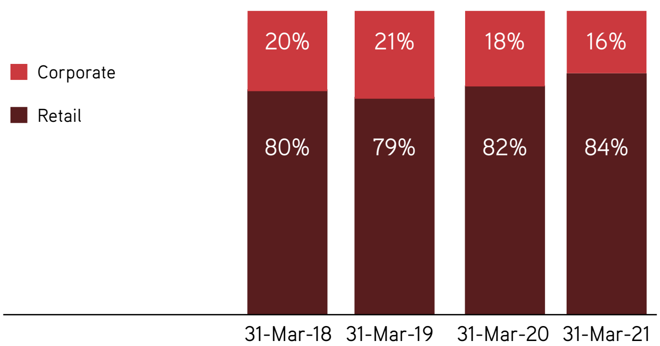
During the year, we carried out several cost optimising initiatives to ensure cost reduction. We analysed all our branches and vendor contracts; different branches were merged or relocated from a high-cost setting to a low-cost setting and vendor contracts were renegotiated to reduce expenses.

Lending Operations

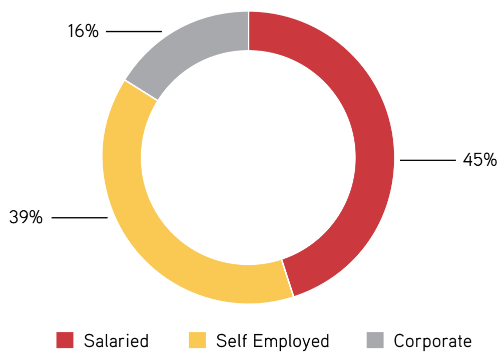
In terms of business, retail segment accounted for 96% of disbursements, as compared to 92% the year before, resulting in retail segment to be 84% of our assets under management (AUM) as on March 31, 2021. We optimised our branch network through merging branches and shifting them to a low-cost setting in Tier 2 and Tier 3 cities, thereby enabling us to increase our disbursements from these cities. The retail disbursements from Tier 2 and Tier 3 branches increased to 42% in FY 2019-20 as compared to 40.7% in FY 2019-20 resulting in increased share of retail assets under management (AUM) from Tier 2 and Tier 3 branches to around 37% as on March 31, 2021 from around 34% as on March 31, 2020. With focus on building granular book, the disbursements in less than ₹2 crores ticket size reduced to 7% of the retail disbursements in FY 2020-21 from 13% in FY 2019-20. We also tightened our lending norms and implemented a robust IT framework across the organisation, which optimised our operations significantly.

We sanctioned 50,454 loan applications during FY 2020-21. The disbursements for FY 2020-21 stood at ₹10,445 crores compared to ₹18,626 crores for FY 2019-20. Assets under management (AUM) was at ₹74,469 crores as on March 31, 2021.

AUM Mix

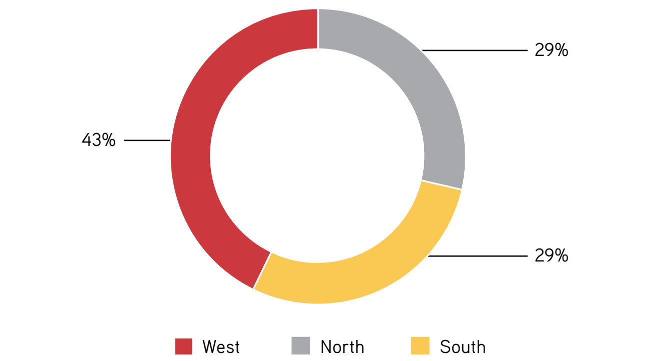


Segment-wise Breakup



Retail 84% (Salaried + Self Employed)

Geographical Distribution (AUM)

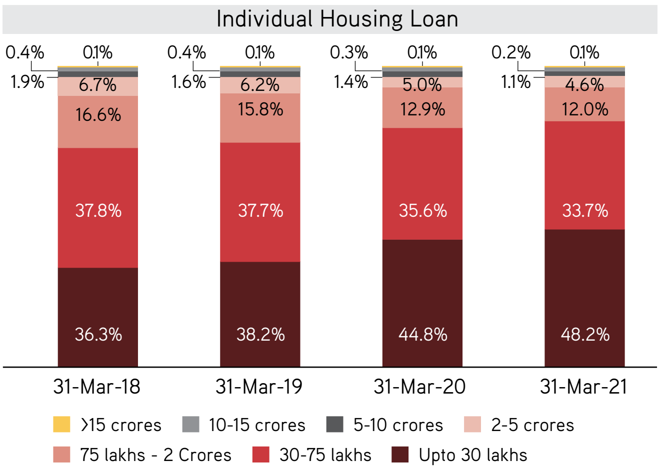


Individual Housing Loans

Owing to our increased focus on the retail segment and growing pie of the affordable housing segment, our average ticket size of the loan stood at ₹27 lakhs as on March 31, 2021 against ₹29 lakhs as on March 31, 2020 for Individual Housing Loan. Salaried customers accounted for 70% of the individual housing loans, while self-employed customers contributed 30%. Our conservative approach towards underwriting and disbursement led to the Loan-to-Value (LTV) for individual housing loan at 72% as on March 31, 2021. We continued our focus on financing ready properties, resulting in the share of the under-construction portfolio in the individual housing AUM declining from 19% as on March 31, 2020, to 17% as on March 31, 2021.

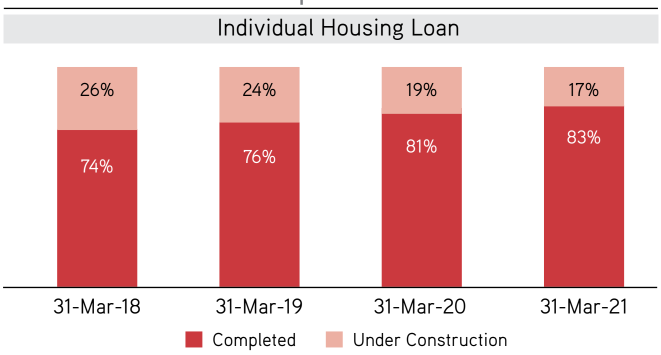
The Company in its efforts to support the Government scheme of "Housing for All" through PMAY-CLSS scheme, have cumulatively disbursed ~ ₹12,000 crores under ~56,000 loan accounts in the category of EWS/LIG and MIG I/MIG II upto March 31, 2021.

Higher Share Lower Average Ticket Size



Focused On Completed Properties

(Under construction vs Completed)



Unnati Loans

There has been a growing focus on the Unnati segment, which led to increase in book during the year. Unnati Book stands at ₹2,985 crores with average ticket size of ₹18 lakhs. Salaried segment contributed 58% of the loans and balance 42% by self employed segment.

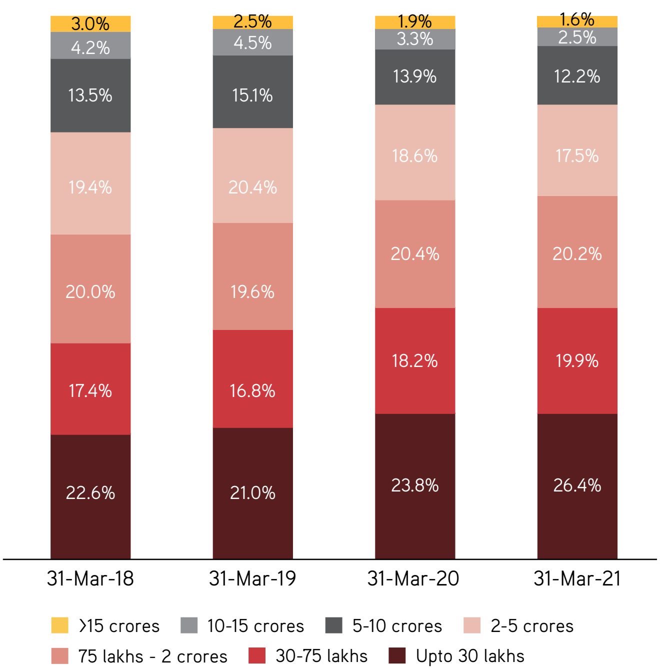
During the year, we disbursed ₹726 crores under Unnati.

- We focused financing properties which have clear titles.
- We are focusing on the mid-income customer group with documented income.
- We ensure a physical visit by our full-time employees to the residential/office/property of the customer.
- Going ahead, we are creating branches dedicated to the Unnati segment and hiring employees with experience in affordable housing to drive growth.

Retail Loan Against Property

During the year, the Company disbursed ₹2,526 crores under this segment. The Average Ticket Size (ATS) is at ₹44 lakhs as on March 31, 2021 compared to ₹47 lakhs as on March 31, 2020.

Retail Loan against Property (Average ticket size range)



The weighted average LTV was maintained below 50%. The self-employed segment accounts for 80% of the retail LAP book. Over time with focus on the lower ticket size, the Loan Asset of LAP book in more than ₹2 crores has reduced by over 4% during the year to 33.6% as on March 31, 2021 from 37.7% as on March 2020.

Retail Non-residential Premises Loan (NRPL)

Retail NRPL contributes 4% to the assets under management. These loans are given for the construction of the commercial property. The ATS for retail NRPL is ₹41 lakhs.

Construction Finance Loan

Construction finance book comprised 12% of the AUM as on March 31, 2021. The ATS on a unique corporate house basis is ₹167 crores. The construction finance book is spread across 79 unique developers, with top seven markets contributing 89% of the AUM. As per laid out strategy to reduce corporate book, the construction finance book in last one year reduced by 17% in absolute terms to ₹8,637 crores as on March 31, 2021 from ₹10,356 crores as on March 31, 2020.

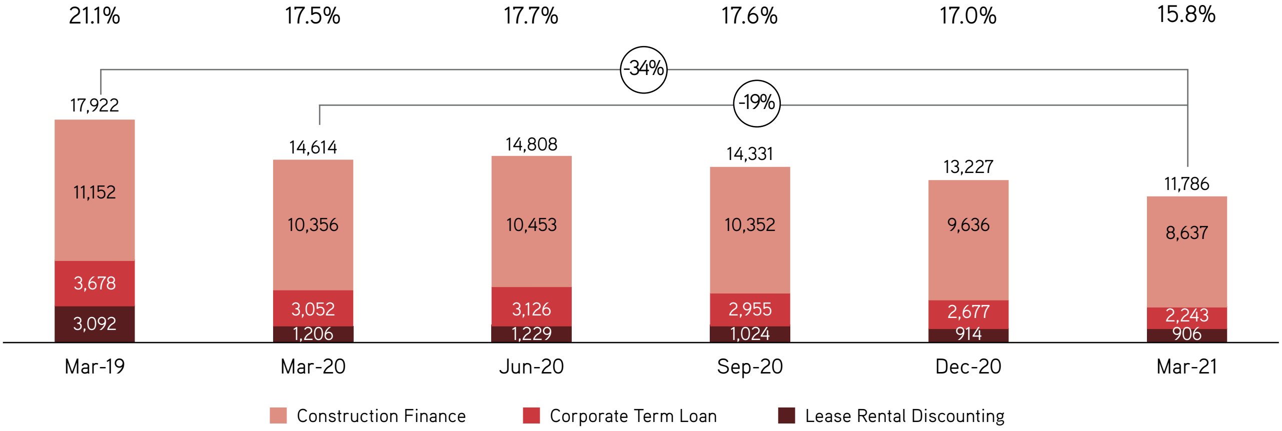
Corporate Term Loan

Corporate term loan (loans given to the developers either for construction of commercial units or as a term loan secured against a mortgage) comprised 3% of the AUM, as on March 31, 2021. The ATS on a unique corporate house basis is ₹98 crores. The corporate term loan book is spread across 40 unique developers, with top seven markets contributing to 90% of the AUM. The corporate term loan book in last one year reduced by 27% in absolute terms to ₹2,243 crores as on March 31, 2021 from ₹3,052 crores as on March 31, 2020.

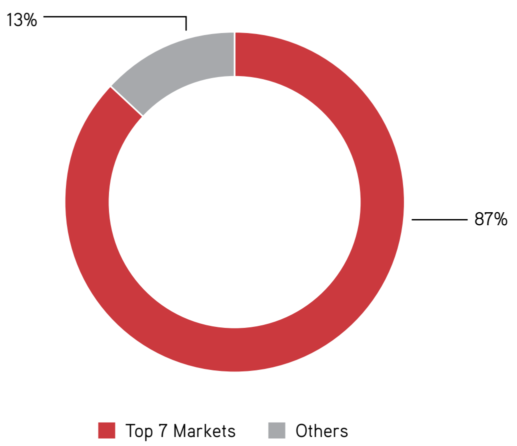
Lease Rental Discounting

It includes the loans given to the developers against the rental receipts derived from lease contracts with corporate tenants. The share of this book in the total AUM stood at 1% as on March 31, 2021 and the ATS on a unique corporate house basis is ₹84 crores. The LRD book is spread across 11 unique developers, with a presence in seven large cities. 100% of the LRD book is backed by leased out commercial office buildings with multiple tenants. The lease rental discounting loan book in last one year reduced by 25% in absolute terms to ₹906 crores as on March 31, 2021 from ₹1,206 crores as on March 31, 2020.

Corporate Book

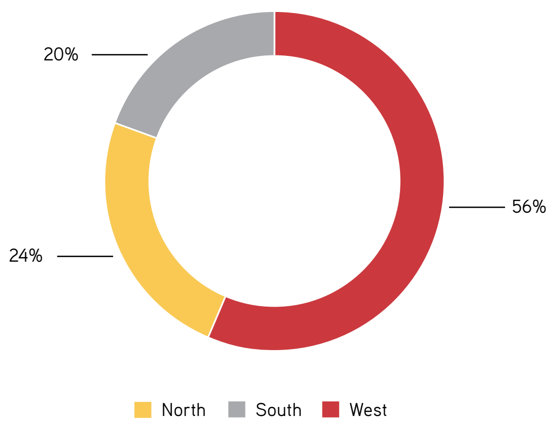


City Concentration



Top 3 markets	
MMR	39%
NCR	19%
Bangalore	13%

Geographical Distribution

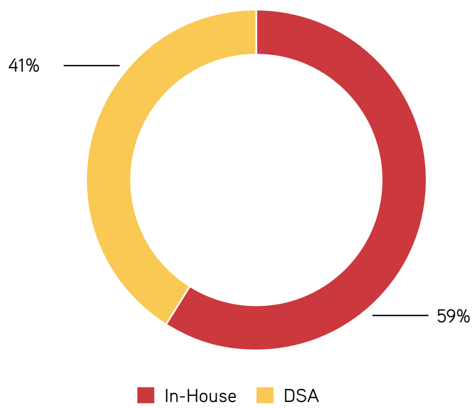


Strong Channel and Geography Mix

We are increasing focus on businesses sourced by internal teams. In-house channel contributed to 59% of the total disbursements done in FY 2020-21. The western zone remains the key market for us across the states of Maharashtra and Gujarat. This is followed by the Northern and the Southern zones. We are focusing on opening branches dedicated to Unnati. We have 94 branches with presence in 64 cities and 22 hubs. We also service our customers through 17 outreach locations.

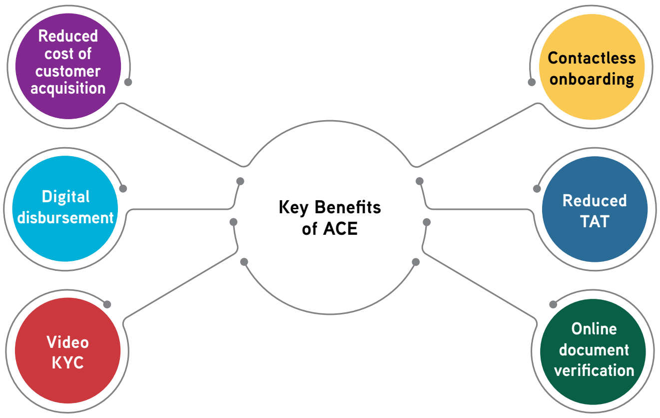
We concentrated on sourcing from internal channels for the Unnati segment, more than 75% was sourced through this channel. Western India accounted for 48% of the total Unnati disbursements.

Disbursement Origination



PHFL Home Loans and Services Limited (PHFL)
Our wholly-owned subsidiary, PHFL is focused on sales and distribution functions of PNB Housing Finance. It has helped in reducing dependence on external sources for acquiring new businesses. We have also been providing adequate processing support to ease the delivery process for customers.

Realigning Retail Strategies with Changing Times
Over the past few years, we have realigned our funding focus and relooked at our disbursement strategy with higher focus on retail customers. However, the pandemic prompted us to relook at our customer acquisition strategy, which led to the introduction of ACE, an innovative digital customer onboarding platform, facilitating easier and safer approval and disbursal of loans with minimal physical contact. It automated the entire end-to-end loan onboarding process, including data collection and verification, and lead generation through various digital channels. Customers can upload documents online with backward integration of verification processes, such as PAN, Aadhaar, digital signatures and video-based KYC, including geo-tagging. Additionally, it has significantly reduced turnaround time (TAT) from documentation to disbursal. The ACE platform was made live in October 2020 and by March 2021, 28% of the monthly logins were sourced through ACE.



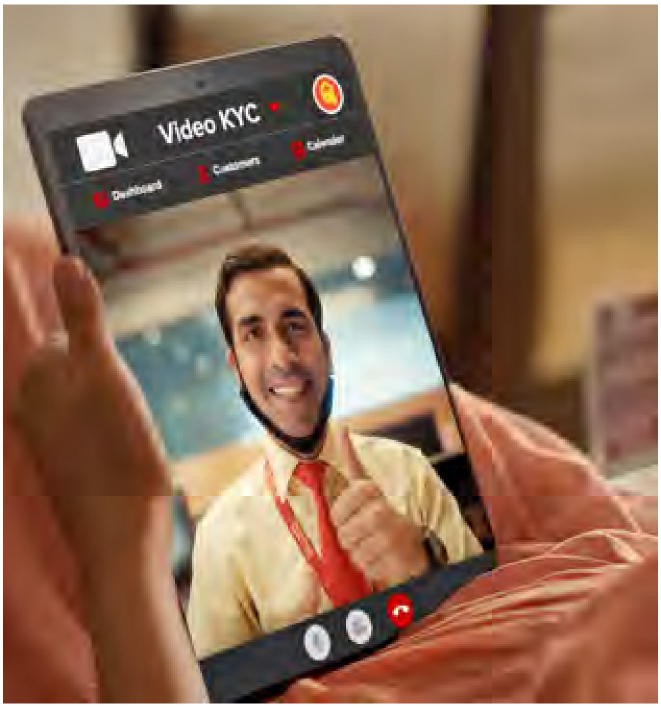
Customer Engagement Initiatives
During the year, we undertook several customer engagement initiatives through both digital and physical modes.

- Initiated district-wise on-ground engagement strategies, including nukkad nataaks.
- Visited various markets on weekends with one-on-one campaigns for Unnati where we focused on educating individual shop owners on their eligibility for products.
- Increased our engagement with channel partners through introduction of enhanced incentive programmes, helping in achieving higher share of files from them.
- Educated the partners about logging files through ACE for better customer servicing.
- Tapped newer channels like Chartered Accountants and architects as well as deal writers at the registrar office for enhanced customer acquisition.
- Held various knowledge webinars.

Creating a Failsafe Strategy during the Pandemic
As the impact of the pandemic is yet to wane, we created a backup team across locations and functions as part of our business continuity plan. In case a primary team becomes non-functional, the backup team will continue the business.

Relentless Support to Our Customers
Customer service remains a key pillar for onboarding, engagement and retention. We provide multi-channel touchpoints to engage with customers, including branches, contact centres, web chat, email and customer portal mobile application, among others. However, the temporary closure of the branches during the lockdown led to the accelerated transition to digital channels. By September 2020, more than 70% of the customer requests were being served through non branch channels.

The robust IT-enabled service infrastructure and business continuity plan ensured that there wasn't a single day of outage even during the lockdown phase. With help of TALISMA, our ERP-integrated customer relationship management software agents of the inbound contact center and the retention team were able to connect with and serve the customers from the safety of their respective homes. Through practical and timely interventions like extended interaction hours (while doing work-from-home) on the non-branch channels, the TAT was maintained at around 93%, which was almost similar to the pre-lockdown period.

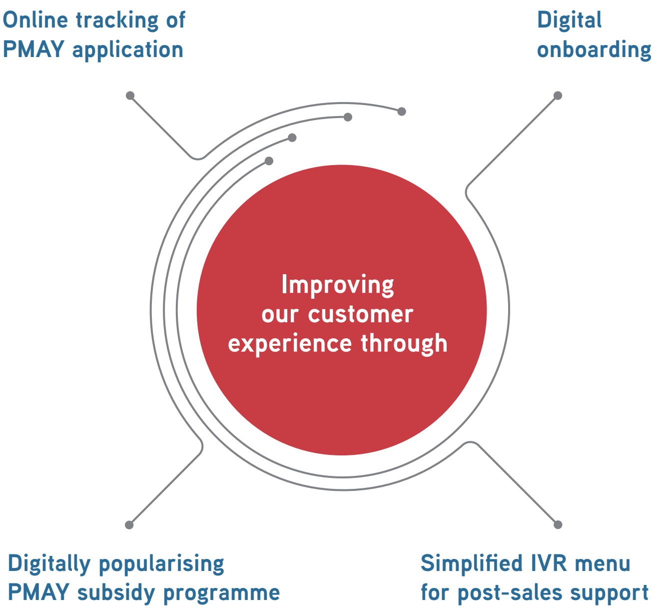


Engaging with Customers through Various Modes
- The moratorium announced by the RBI in March 2020 (and extended in May 2020) to ease the EMI burden of customers, was one of the major query points for the customers during the first half of the fiscal year. We continuously connected with our customer through various modes of communications and offered services in vernacular languages for ease of understanding.
- As more customers chose to connect through calls, we simplified the IVR call menu, expanding the service offering

to nine self-service options. The system recognised the caller phone number, helping reduce layers of verifications. Besides, the self-service menus were made binary, helping the callers to get desired outputs faster. During the year, we have included support of six languages in the IVR menu to help a wider base of customers.

- We are enhancing the capabilities of our chatbot Homie to enable it to undertake more complex requests/queries.
- We are among the early players to register on CLSS Awas Portal (CLAP) to process the Pradhan Mantri Awas Yojana Subsidy (Urban) applications online. More than 16,000 applications were moved through this portal.
- The deposit franchise continued to grow even in the face of tough market conditions. During the lockdown phase, the completely paperless mode of deposit acceptance, as well as processing of loan against deposits and prematurity and maturity withdrawals won the hearts of customers as well as our broker partners.
- We introduced video KYC for an end-to-end digital, paperless and zero-contact customer onboarding process. It also helped us in controlling customer drop off rate besides reducing TAT for the process as well providing a touchless transaction option for the customers. The multi-lingual KYC is operable from a branch level, making it much more accessible to a larger part of the Indian market.

Going ahead, there will be increased focused on cost optimisation. We are training our people for multi-tasking to serve the increasing number of customers. We will skill our frontline staff to reduce transaction time in our branches. Additionally, the revamp of the mobile application is planned to move at least 30% of the customer transactions to self-service digital mode.



Strengthening our Underwriting Strategy

The Company has institutionalised a robust credit underwriting system and has built a steady loan portfolio over the years. We regularly review the credit monitoring and control procedures through timely policy interventions and strengthen our approach to markets.

As a part of our strategy to strengthen the core, we are further augmenting our underwriting framework using advanced analytics and modelling techniques by embedding machine learning and artificial intelligence-based applications, which will further strengthen our underwriting decisions and enhance our processing efficiency.

To further improve upon the efficiencies and transform customer experience, the Company, as a part of 'Project IGNITE' has undertaken a project for underwriting automation. The project is aimed at digitising and standardising the credit appraisal process, aiding the credit decision and includes the following key components:

- Credit Appraisal Memorandum (CAM) Automation for financial appraisal and eligibility calculations
- Machine Learning (ML) based score cards for various business & customer segments
- Business rule management engine (BRME) for on-the-fly application of policy rules

Strategies Aligned to the Evolving Realities

The Company witnessed the changes in the market behaviour because of the pandemic and we did proactive review of portfolio and made intervention in our credit guidelines and policies in the first quarter of the year, before restarting the business in the month of June 2020 and after opening up of lockdown in the country. Considerable effort and time got invested in training/upskilling of our sales and underwriting force to be abreast of the changing environment due to impact of COVID-19 and our approach to incremental business in current times. The underwriting and appraisal process got more holistic, including tightening of key policy vectors, assessment of ability of the customer to generate cash flow in post-COVID era and sustainability of business model in such time.

Reliance on in-house skilled underwriters to conduct exhaustive personal discussions with the customers and accordingly opt for the credit decision. The Company continued to witness increased penetration of digital tools at various stages of the underwriting process, which in turn helped in bringing down the cost of processing of files by 8% over the previous year. Increased filters on account of bureau scores and product appraisal norms for on-boarding fresh business ensured that we maintain desired portfolio quality and bring in processing efficiencies. During the year, 80% of loan applications were approved in approximately 3.5 working days (wing to wing: from reference generation to sanction), despite the disruptions caused by COVID-19 in majority of the markets. The Company continued its focus on leveraging digital tools in processing of loans and drive better TATs.

Focused Strategy for the Unnati Segment

We have created a tailor-made policy for Unnati. It has a templated underwriting covering financial as well as behavioural aspects of each customer. We ensure that our full-time employee visits the Unnati customers to verify disbursement to the right person.

We have created a local touch and connect system to cater to the appraisal requirements against a central processing unit. We are training our team extensively to evaluate and sanction loans to customers in this segment.

Digital interventions used in Credit Appraisal resulting in better efficiencies

Fraud Detection

- Common pool of fraud customers from over 100+ major financial institutions in India
- Dedupe rules available at national (common user group) as well as local (enterprise) level

Project Monitoring

- Automatic subsequent project monitoring for top 8 business locations covering 70% of business volume
- Better operational efficiencies and savings in processing cost per file

Work E-Mail Validation

- Effective way of employment verification without personal visit
- Report includes (a) Validation of employer e-mail domain and mailbox (b) Form filling for matching information with application data (c) Timestamp and GPS coordinates at the time of form filing for address match

Vendor Management

- State-of-the-art features like document/pictures upload, GPS coordinates, digital signature, live dashboard and so on
- Better control and monitoring
- Uniformity in vendor reports, improved quality
- Reduction in TAT time

KYC Verification

- Online KYC verification from authentic data sources
- Efficient document sampling
- Established KYC tools to detect alternate credit history and fraud across all cases

Bank Statement Analytics

- In-depth and informative analysis at a click
- Penetration increased from under 50% at start of the year to 90% in March 2021
- Reduction in TAT and improvement in productivity
- Faster results with minimal human intervention and elimination of human errors
- Detects inconsistencies in banking entries and manual tampering of statements

Pillars of credit underwriting

Fraud Control Units

The greater economic unrest due to the COVID-19 pandemic brought in huge changes in the approach towards the financial lending and FCU team, with its robust platform and processes, readily accepted the change and challenge in document and profile screening of the loan applicants and consistently delivered a hit-rate of 3.38% for FY 2020-21 at a sampling percentage of 60%. 1,476 cases were identified and declined in FY 2020-21, resulting in notional fraud savings of ₹853 crores.

Technical Service Group (TSG)

TSG is a team of professionals comprising architects, town planners and civil engineers. During FY 2020-21, TSG has carried out valuations of more than 65,000 loan accounts and more than 4,500 Advanced Processing Facility (APF) cases majorly pertaining to completed projects and affordable housing. TSG approved 285 new projects under the advance processing facility (APF). TSG has revalued the loan accounts in order to assess the impact of the pandemic on the value and quality of the underlying collaterals. In the midst of the ongoing pandemic, the team conducted more than 10,000 site visits along with periodic monitoring across the entire country.

Legal Counsel

Legal team has been involved in loan documentation for ECLGS scheme and interpretation as well as loan documentation for RBI COVID-19 related restructuring circulars. Legal actions in high value CF cases has resulted in speedy recovery through various legal recovery tools.

Corporate Underwriting Remained Stringent

We continued to reduce our exposure to the corporate sector and sanctioned no new loans during the year. The corporate loan business is managed by a team of relationship managers in key markets, experienced credit underwriters and qualified operations personnel, along with specialised legal and technical experts, who ensure continued delivery of high-quality services and closer monitoring of the portfolio amid the ongoing turbulence. The Company has formed a Remedial Management Group (RMG) under the supervision of MD & CEO to accelerate resolution of corporate accounts.

During the year, the Company resolved few large accounts with nil haircut. Significant progress is also made in the NPA accounts towards their resolution including one large NPA account in the final stages of resolution.

Corporate Book Key Credit Covenants

- Minimum security coverage ratio of 1.5x; weighted average as on March 31, 2021 is over 2x
- Average cash receivable coverage (net of project expense) of 1.5x
- Collections through escrow mechanism

Focussed approach on Recoveries to enhance Resolutions

We embedded analytics to reduce delinquencies and mitigate losses allowing businesses to maximise their accounts receivable recovery. Collection analytics aid in understanding customer preferences and behaviour patterns, which in turn help in developing better collection strategies. Collection strategies further help us determine the accounts that have a higher probability of losses, to categorise the different types of customers, as well as to prioritise and target the customers.

However, the onset of the pandemic and the subsequent moratorium announced by the RBI resulted in uncertainty in customers paying the EMIs resulting in increased bounce rate. The economic uncertainty disrupted cash flow of customers, thereby impacting recoveries.

Post moratorium, the Hon'ble Supreme Court has put an embargo on asset classification, thus delaying the resolution process. The embargo was lifted in March 2021.

During the pandemic and post pandemic, we constantly communicated with our customers to understand their challenges in order to resolve the same. From November onwards, we started working on bucket resolution with weekly targets with sensitising customers and future repayment.

We leveraged digital platforms to facilitate recovery. We added digital payment systems like PayTM and RazorPay to make payment easy for our customers. Chat bot is being used to reach out to customers and resolve issues and collect payment, helping us reach a wider customer base. We are regularly sending payment reminder SMS to sensitize the customers about their payments. We expect these tools will help further build-up and improve collection efficiency in coming year.

The advance analytics driven collections models, strengthening of collections team and addition of external vendors resulted in increasing our reach on the ground thus improving resolutions quarter on quarter.

Expected Credit Loss Provisions

As on March 31, 2021, being prudent considering the external challenges of higher delinquencies on account of COVID-19 disruption and degrowth in the overall portfolio, we made provisions of ₹778 crores during the year resulting in total provision of ₹2,544 crores as on March 31, 2021. Our total provision to total assets stood at 4.1%, increased from 2.6% as on March 31, 2020. The provision coverage ratio for Stage 3 moved up to 45.2% as on March 31, 2021 from 36.2% as on March 31, 2020.

Accelerating Digital Transformation

The unprecedented disruption caused by the pandemic provided us the opportunity to accelerate our digital journey to emerge as a digital home loan company in the coming years. The core idea behind our digital transformation revolves around creating superior experience for customers – starting from contactless document upload to video KYC and lower TAT. The IT team at PNB Housing Finance is working on digitalising the entire value chain, which will result in operational efficiency. We are implementing digital tools across functions like risk management, collections and recoveries, among others to drive efficiency and optimise cost of operations.

Digital Drive Across the Value Chain

Digital Approach

- Portfolio management
- Sourcing
- Underwriting
- Collections

Tools and collaboration

- ACE
- Online home loan
- uConnect
- Talisma
- Payment collaborations with various digital partners

Impact

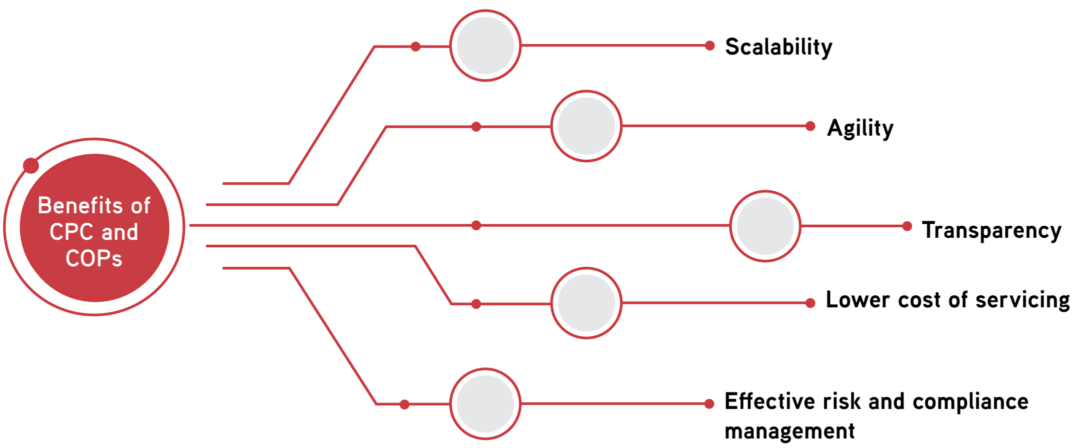
- Digital acquisition in Retail segment is at 19% in FY21
- Significant reduction in TAT
- Fraud control tools and multi-layered ecosystem resulting in negligible fraud losses
- Digitised around 70% of the customer loan documents
- Over 77% service requests received through non-branch channels resulting in improved productivities

KEY HIGHLIGHTS OF INFORMATION TECHNOLOGY FOR FY 2020-21

- The outbreak of COVID-19 resulted in work-from-home for employees and we have also implemented a teleworking solution with a through-through approach to make the end-to-end channel secure. We swiftly implemented a cloud-based virtual system interface hosted on Microsoft Azure cloud.
  The work-from-home facility was made available to employees from day zero of the national lockdown declared by the Government of India. Additionally, the highest form of security was ensured to protect the data and processes from abuse.
- Our Information Security Management System (ISMS) is certified with the standard of ISO/IEC 27001:2013 by UKAS (United Kingdom Accreditation Service).
- In compliance with the RBI's regulatory package announced as a relief to our customers who could be facing liquidity issues due to COVID-19, we implemented moratorium on payment of instalments due from ~ 1.10 lakhs customers who have opted in for moratorium facility.
- ACE was the major highlight during FY 2020-21. It is a digital customer onboarding platform (web and mobile), which orchestrates customer online journey, by automating the end-to-end loan onboarding process – loan information collection, information verification, lead creation, video KYC and soft sanction. The platform was launched in October 2020 and boosted our customer acquisition drive.
- We introduced credit score-based pricing, where each loan would be offered specific rate of interest based on the credit (CIBIL) score. It has been implemented in our system and now system automatically offers ROI based on various parameters, including CIBIL score.
- In compliance with the RBI issued guidelines, which was related to resolution/relief to be given to loan customers who are adversely affected by economic situation arising out of COVID-19, We have developed and implemented the 'Loan Restructuring' functionality in ESS (Kastle – LMS) along with all the associated validation as per RBI Guidelines.
- We have tied up with Amazon and Airtel Payments Bank to source newer businesses. The network customers of Amazon and Airtel Payments Bank can avail loans from PNB Housing Finance.
- To handle increased business through the digital channel, we are revamping the IT infrastructure, including upgradation of the backend server. We are also implementing private cloud with a hyper conversion structure for increased scalability and reduced system downtime. We are also updating our customer database for effective data mining.
- We are introducing an AI-backed bot that will help in effectively analysing the market and support the internal treasury team to take the right investment decisions.
- To make the buying journey more personalised and engaging for our customers, we have introduced Homie - our first conversational landing page. It acts as a templated bot, which guides the online user on web for submitting their details for loan enquiry.
- We strengthened the uConnect – a collaborative platform that simplifies the way business partners interact with PNB Housing Finance. The partners can have chat facility and can submit reports and documents for cross-checking.
- Our IT Team facilitated information dissemination during the moratorium period announced by the RBI and provided them with necessary guidance, documenting their consent to exercise the option and ensuring the requisite paperwork was in place.
- To ensure customer authenticity, comply with KYC Guidelines and avoid errors in TDS filling, the deposit system has been further enhanced and integrated with PAN verification services. Each FD forwarded from branch to centralised operations (COPS)s will now go through a PAN validation check wherein status of PAN number along with PAN details will appear on the screen.
- Earlier FD leads used to remain as a data record in the lead management system and there was no defined workflow for updating the status of the FD leads. To cater to these issues, workflow for managing FD leads has been introduced in the lead management system along with integration with core deposit system.

Centralised Operations

Our ISO-certified central operations help in implementing best practices in operational activities and customer experience.
The central operations team has successfully delivered all non-customer interface operational activities as per the enhanced service level agreement. The team is divided into two business units: central processing centre (CPC) and centralised operations (COPS).



CPC and COPS activities helping in efficient operations

- Custodian of documents
- Digitisation of title documents
- Business partner management
- CERSAI charge creation and satisfaction
- Centralised refund processing
- Image-based deposit processing
- Repayment mode management
- Cash management services
- Service request management for internal and external customers
- Customer correspondence management

Central Processing Centre (CPC)

Our CPCs are located in Mumbai, Bengaluru and Noida, helping us service the growing needs of our business. CPCs act as custodian of documents – loan files, deposit applications, repayment pouches and business partner applications, among others.

CPC also manages the repayment mode and creation/settlement of charge at Central Registry of Securitisation Asset Reconstruction and Security Interest (CERSAI) and settlement of the Pradhan Mantri Awas Yojana subsidy applications.

CPC further assists in the banking of instruments, both cash management services (CMS) and EMI within defined timelines. CPC handles nearly 1.67 lakhs service requests, including loan closure and refund claims, every month, within defined timelines.

Centralised Operations (COPS)

The COPS team handles processing of deposits insurance reconciliation, pay-out processing, customer correspondence and channel partner empanelment. COPS enables a paperless environment, wherein deposits are processed through images, and payments to depositors are made electronically, among other improvements. At PNB Housing Finance, we have a deposit customer base of more than 2.41 lakhs account and the team has an average TAT of 4 hours from cheque clearence to issuance of FD receipt.

FINANCIAL PERFORMANCE

Consolidated Performance Indicators (as Per Ind-As)

(₹ in crores)	FY 2020-21	FY 2019-20	Variance
Net interest Income	2,322.91	2,308.04	1%
Fee and Commission Income (net of Fees and Commission expense)	169.62	289.92	-41%
Other Income	20.16	7.71	
Gross Income	2,512.69	2,605.67	-4%
Operating Expenditure	443.77	543.3	-18%
Operating Profit	2,068.92	2,062.37	0%
Impairment of Financial Instruments and Write-offs	861.90	1,251.37	
Profit before Tax	1,207.02	811.01	49%
Profit after Tax	929.90	646.24	44%
Other Comprehensive Income (net of taxes)	-20.69	-55.3	
Total Comprehensive Income	909.21	590.94	54%
Basic Earnings per Share (₹)	55.29	38.45	44%

Key Financial Ratios

(%)	FY 2020-21	FY 2019-20	Variance
Average Yield	10.68%	10.71%	-3bps
Average Cost of Borrowing	7.91%	8.25%	-34bps
Spread	2.77%	2.46%	+31bps
NIM	3.16%	2.98%	+18bps
Cost-To-Income	15.09%	16.89%	-180bps
Return on Asset	1.23%	0.80%	+43bps
Return on Equity	10.91%	8.12%	+279bps
Total Provision/Total Asset Ratio	4.09%	2.61%	
Gearing	6.72	8.53	
Book Value Per Share (₹)	530.29	475.49	12%
CRAR	18.73%	17.98%#	+75bps
Tier I Capital	15.53%	15.18%	
Tier II Capital	3.20%	2.80%	
Risk-Weighted Asset (₹ in crores)	47,068.00	49,143.00#	-4%

FY2019-20 is on IGAAP basis

Over the last one year, we have worked relentlessly to strengthen our balance sheet and diverse in areas where we want to increase our presence. The revised strategy of increased focussed on retail segment and reduction in corporate book helped in deleveraging our balance sheet and reduce the load of asset on our capital, which resulted in reduced gearing and increased CRAR. The gearing as on March 31, 2021 reduced to 6.72x from 8.53x as on March 31, 2021. The CRAR also increased to 18.73% as on March 31, 2021. Adjusted for deposits with companies in same group, which gets deducted from Net owned funds, the CRAR would have been 20.6% as on March 31, 2021.

LIQUIDITY AND COST OF FUNDS

The focus during the year was to source liquidity at the right price and through balance mix of fixed and floating, long term and short term to effectively price loans as well as appropriate asset liability management.

Considering the external challenging environment, the Company maintained high liquidity of over 3 months as safeguard against any unforeseen circumstance. However, we constantly monitored the external market situation and quarter on quarter, focused on reducing liquidity in the balance sheet, which reduced from ₹8,514 crores as on March 31, 2020 to ₹6,969 crores as on March 31, 2021. During the year, deposits grew by 4%, to reach at ₹17,129 crores as on March 31, 2021 with over 240,000 active deposit accounts. The share of deposit in the overall resource funding mix as on March 31, 2021 is 24%, which has increased from 20%, as on March 31, 2020, thereby reinforcing the strong PNBHFL deposit franchise.

The bank borrowing decreased from 24.4% as on March 31, 2020, to 22.2% as on March 31, 2021. The share of CP in total funding stood at 1.6% as on March 31, 2021, against 0.5% March 31, 2020. Our resource mix includes loan from banks, refinance facility from the NHB, foreign currency-denominated ECBs, deposits, CP, NCDs and securitisation through direct assignment.

Managing Liquidity and Asset-Liability Mismatch

During the year under review, we focused largely on long-term loans from banks and NCDs. It also avoided short-term CPs, which helped minimise any asset-liability mismatch. We maintained approximately 3 months of liquidity as the pandemic delayed securing funds from banks. As on March 31, 2021, we maintained adequate liquidity of around ₹6,500 crores and had additional sanctioned but undrawn lines of over ₹3,000 crores.

The cost of borrowing came down by nearly 34 basis points during the year. The Company during the financial year worked aggressively on prepaying and re-negotiating its high cost borrowings. The incremental cost of borrowing for FY 2020-21 stood at 6.80%, registering a decline of 167 basis points versus FY 2019-20.

Deposit Mobilisation

The deposits business saw strong traction during the year under review. To facilitate contactless operations, we initiated online deposits and loan against deposits. Loan against deposits were provided at lower rates than that of personal home loan market players. During FY 2020-21, the Company sourced 95,449 deposit applications amounting to ₹7,289 crores.

Bonds

We mobilised ₹1,690 crores through the issuance of secured, rated and listed bonds. The bond issuance sharply fell compared to the previous year due to subdued debt capital market sentiment affecting NBFCs and HFCs and due to high yields demanded by debt capital market in comparison to bank term loans. Hence, as a strategy, we focused on raising funds through bank term loans and securitisation routes. The share of NCDs in the total resources is at 17% as on March 31, 2021 decreased from 23% as on March 31, 2020.

Bank Borrowings

Albeit challenges owing to slow movement due to the pandemic, we mobilised ₹13,972 crores as bank loans from both private sector and public sector banks. We have been sanctioned working capital limit of ₹2,595 crores by various banks to address temporary cashflow mismatch. The outstanding bank loans were at ₹15,997 crores (22% of total resources) as on March 31, 2021.

External Commercial Borrowings (ECB)

The Company during the year signed an agreement with Japan International Cooperation Agency (JICA), one of the largest bilateral development organisations in the world to raise US$ 75 million with co-financing of US$25 millions by Citibank(Citi) for the purpose of providing affordable housing to low income households in India. This is a long-term facility of five years.

Securitisation

The outstanding securitised portfolio as on March 31, 2021 stood at ₹12,214 crores. During the financial year under review, the Company securitised pool of ₹789 crores. The Company is not very actively looking at this route of raising funds.

Refinancing from the NHB

During the year, the Company has availed ₹3,500 crores sanction received from the NHB; of which ₹1,500 crores was under the regular refinance scheme and remaining ₹2,000 crores was under the one year Special Refinance Facility scheme extended to HFC sector as support due to COVID-19 situation. The outstanding amount under this facility stood at ₹7,848 crores as on March 31, 2021.

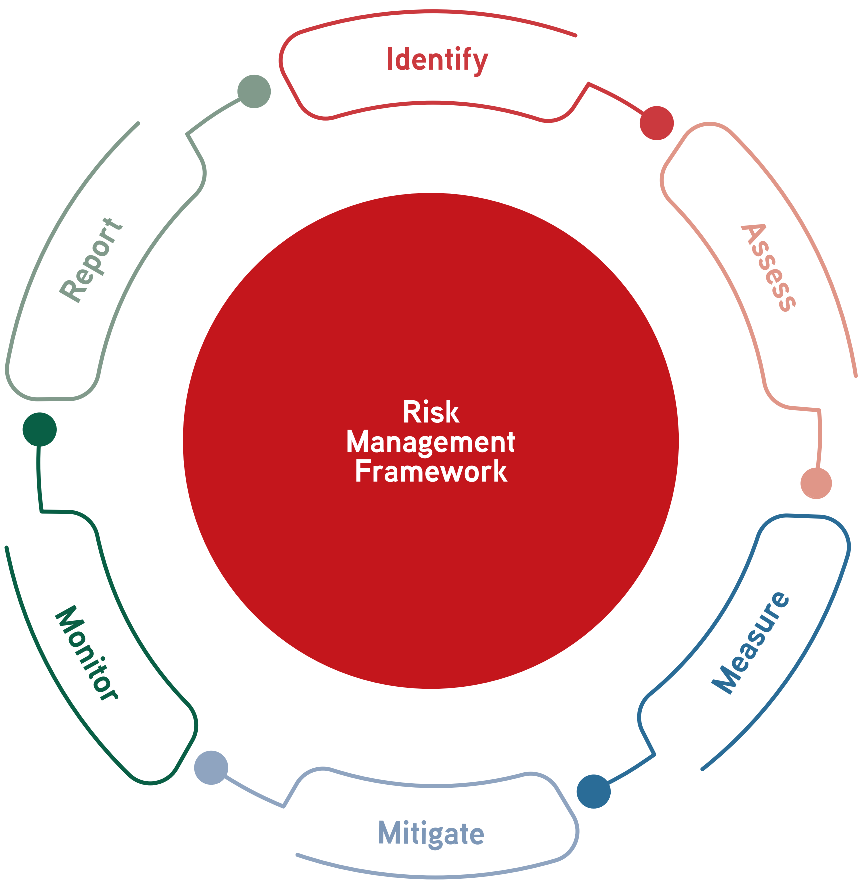
Commercial Papers

Our CP borrowings stood at ₹1,125 crores as on March 31, 2021 against ₹416 crores as on March 31, 2020. We raised fresh CPs aggregating ₹2,125 crores during the year for an average tenor of 8 months at a weighted average cost of 6.27%. The Company did not tap this market as it had adequate liquidity and also to continue maintaining the ALM position.

SAFEGUARDING AGAINST UNCERTAINTIES

In a business environment, which is increasingly witnessing vulnerable, uncertain, complex and ambiguous developments, a strong risk management framework safeguards the business. PNB Housing Finance has a robust risk management process. It proactively identifies, analyses and mitigates risks, which may have adverse impact on our growth strategies. We have a formalised framework, which is implemented across the organisation, helping us effectively mitigate the risks and achieve our objectives. Our risk management measures broadly include risk assessment, risk catalogue, risk appetite framework, risk planning, risk culture, internal controls and good governance.

The Risk Management Committee, under the tutelage of the Board, reviews the effectiveness of the risk management framework and helps in undertaking corrective actions. The principal business risks (assessed function wise) are credit risk, market risk, liquidity risk, reputation risk and technology risk.



Key risks and their definition	Risk mitigation
CREDIT RISK Risk arising out of decrease in the value of our assets owing to uncertainty around a stakeholder's ability to meet obligations	• Setting out the principles, standards and approach through a comprehensive framework to identify, assess, measure, monitor, control and report credit risks in a timely and efficient manner, helping observe early warning signs of delinquency and maintaining asset quality year-on-year • Define roles and responsibilities for Risk Management Committee (RMC), Enterprise Risk Management Committee (ERMC) and business units for effective credit risk governance • Customise risk measurement approaches for various portfolio segments/sub-segments • Continue to develop strong underwriting and security/collateral management frameworks • Consistently review Key Risk Indicators (KRIs) of concentration, delinquency, and efficiency • We are realigning our credit policy based on the evolving realities and safeguarding the asset base
MARKET RISK Risk arising out of a fall in the value of our assets held for trading or an increase in the value of its liabilities held for trading, due to fluctuations in interest rates, credit spreads, external factors or prices in the market where the assets and liabilities are traded	• Continuously monitor and review the interest rate scenario • Continuously provide inputs and insights related to market risk profile and portfolio performance to help in remaining within the approved risk tolerance limits • We are realigning our credit policy based on the evolving realities and safeguarding the asset base
LIQUIDITY RISK Risk related to inadequate liquid assets or restricted access to market financing to meet contractual maturities of liabilities, regulatory requirements or the investment needs in the market where the assets and liabilities are traded	• Ensure adequate liquidity availability to ensure maintenance of asset and liability mismatches within the desired levels • Implemented a 'liquidity contingency plan' to take care of any adverse liquidity position
REPUTATION RISK Any adverse impact owing to bad experience or improper perception in the public domain in the market where the assets and liabilities are traded	• Continuously measure and monitor conventional and digital media for threats • A dedicated team for immediate response to consumer complaints • Engage consistently with external and internal stakeholders
TECHNOLOGY RISK Losses arising out of lack of hardware and software and/or their failure resulting in process downtime and loss of data needs in the market where the assets and liabilities are traded	• Review and monitor data security, continuity, integrity and outsourcing • Constantly monitoring the uptime of the systems; creation of disaster recovery sites for seamless operations • Implement a strong system for protection of corporate and customer information, IT systems, services and equipment

ENGAGING EFFECTIVELY WITH MARKET PARTICIPANTS

We regularly interact with the investor community through a well-structured investor outreach programmes. This includes periodic investor updates, investor conferences, conference calls, meetings, non-deal roadshows, among others across geographies. We have a dedicated investor relations (IR) team who regularly interacts with the investor fraternity.

During the year, the IR team adapted quickly to the virtual mode with regards to interactions with the market participants and proactively shared the information with market participants through various press releases. We not only participated in the one-on-one meetings but also various virtual conferences held during the year. The Company is covered by various domestic and global research houses and is a part of NSE, BSE and MSCI indices.

The quarterly, half yearly and annual results were intimated to the stock exchanges and emailed to the market participants, along with the press release and a detailed investor presentation. The earnings call post results was conducted on the same day, where the management spent time to first give an update on the business and financials, followed by answering the queries of market participants. To ensure that information sharing is up-to-date and relevant for the market, the investor pack is regularly updated with additional information basis internal and external scenario, interaction with market participants and their feedback. We have also placed a factsheet on our website under investor relations section to give a quick glimpse about us.

ROBUST INTERNAL CONTROL SYSTEM

Business growth demands that internal audit performs stringent checks to track any deviation. The internal audit function applies a systematic, disciplined approach to evaluate the effectiveness of the controls and risk management process across the Company. We have processes for internal audit in place, whereby disbursement and docket audit, while getting shifted from CPC to branches, are audited by external legal firms and their findings are shared monthly while the audit reports are issued quarterly. This year, portal filings were carried out online, in line with the guidance from the regulators. The key issues identified during the audit were apprised to the ACB on a quarterly basis.

The hubs and branch audits are conducted at various intervals by the in-house audit teams. For auditing the functions such as accounts, deposits, general administration, IT, HR, customer service and so on, the auditors visit the branches twice a year. Transaction audit of the branches are completed as per the given scope and in time. Functions at the CSO, namely, treasury, finance and accounts, general administration and HR are audited by an external auditor at quarterly intervals. The functions like corporate finance, compliance, CSR, COPS and CPC, central recovery and IT are audited by in-house internal auditors at specified intervals.

CAUTIONARY STATEMENTS

In this Annual Report, certain statements are forward looking, including and without limiting statements within the meaning of applicable laws and regulations, relating to the implementation, strategic initiatives and other information on our business, business development and commercial performance. While these forward-looking statements exemplify our judgment and future expectations concerning the development of our business, a number of risks and uncertainties and other important factors viz. economic conditions affecting demand and supply, government regulations, natural calamities and so on, may cause actual development and results to differ materially from our expectations. PNB Housing Finance undertakes no obligation to publicly revise any forward-looking statements to reflect future events or circumstances.